

Message Text

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INR-07 NSAE-00 XMB-04 OPIC-06 SP-02 CIEP-02 LAB-04

SIL-01 OMB-01 AEC-07 CEA-01 DODE-00 FEAE-00 FPC-01

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SUBJECT: U.S. POLICY STATEMENT ON DEVELOPMENT BANK LENDING
TO OIL PRODUCING COUNTRIES.

1. THE UNITED STATES EXECUTIVE DIRECTOR AT THE WORLD BANK, CHARLES SETHNESS, OUTLINED AT THE DECEMBER 17 IBRD BOARD MEETING THE U.S. POLICY ON DEVELOPMENT BANK LENDING TO OIL PRODUCING COUNTRIES. GIVEN THE NEEDS OF THE POORER DEVELOPING COUNTRIES AND THE SIGNIFICANT AND GROWING RESERVES OF MOST OIL EXPORTERS, WE BELIEVE THE BANKS SHOULD MAKE SUBSTANTIAL MODIFICATIONS IN THEIR ARRANGEMENTS FOR DEVELOPMENT ASSISTANCE TO THE OIL EXPORTING COUNTRIES. WE ARE NOT SEEKING TO PUNISH THE OIL EXPORTERS BY DEPRIVING THEM OF CONTINUED ASSISTANCE FROM THE BANKS. RATHER WE ARE SAYING THAT THE BANKS SHOULD NEGOTIATE ARRANGEMENTS

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WITH THESE COUNTRIES WHICH DO NOT DIMINISH THE INSTITUTIONS'

CAPACITY TO ASSIST OTHER MORE NEEDY COUNTRIES.

2. THE TEXT OF POLICY STATEMENT FOR YOUR INFORMATION FOLLOWS. SINCE ELEMENTS OF THE U.S. POLICY HAVE ALREADY APPEARED IN U.S. PRESS, THEY MAY ALSO BE PICKED UP IN FOREIGN PRESS. WHILE YOU SHOULD NOT SOLICIT REACTIONS, PLEASE REPORT HOST GOVERNMENT OFFICIALS' COMMENTS IF ANY COME TO YOUR ATTENTION.

3. TEXT "POLICY STATEMENT OF THE UNITED STATES ON

DEVELOPMENT BANK LENDING TO OIL PRODUCING COUNTRIES"

4. WE ARE ABLE TO SUPPORT THIS BORROWING, VIEWED AS A SEPARATE AND INDEPENDENT OPERATION, SUBJECT TO THE QUESTIONS AND CONCERNS WHICH WE RAISED LAST WEEK. SINCE, HOWEVER, THE BORROWING IS IN FACT INTEGRALLY CONNECTED WITH THE FIVE LOANS TO BE PRESENTED LATER TODAY, I WOULD LIKE TO TAKE THIS OPPORTUNITY TO SET FORTH, IN A FORMAL WAY, THE UNITED STATES GOVERNMENT POLICY ON DEVELOPMENT BANK LENDING TO OIL PRODUCING AND EXPORTING COUNTRIES.

5. THE INCREASE IN THE PRICE OF OIL HAS GREATLY INCREASED THE INCOMES AND FOREIGN EXCHANGE EARNINGS OF OIL EXPORTING COUNTRIES. AT THE SAME TIME THE INCREASE IN OIL PRICES, AND IN PRICES OF OTHER PRODUCTS ASSOCIATED WITH ENERGY, HAS CREATED SERIOUS ECONOMIC PROBLEMS FOR MANY DEVELOPING COUNTRIES.

6. WE BELIEVE THE DEVELOPMENT BANKS OF WHICH WE ARE A MEMBER, THE WORLD BANK, THE INTER-AMERICAN BANK AND THE ASIAN DEVELOPMENT BANK, SHOULD ADJUST THEIR PROGRAMS APPROPRIATELY TO THIS NEW SITUATION. IN OUR VIEW, THERE IS NO JUSTIFICATION AT THIS TIME FOR SOFT LOANS TO ANY OIL EXPORTING COUNTRY. FINANCIAL SUPPORT THROUGH ORDINARY CAPITAL LOANS SHOULD BE VERY STRICTLY LIMITED IN TOTAL AMOUNT, AND SHOULD BE RESTRICTED TO ONLY THOSE AMONG THE

POOREST OF THE OIL EXPORTING NATIONS WHO HAVE PRESSING FOREIGN EXCHANGE REQUIREMENTS FOR DEVELOPMENT PROJECTS.
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7. WE HAVE NOT COME TO THIS CONCLUSION BECAUSE OF ANY DESIRE TO HINDER THE DEVELOPMENT EFFORTS OF OIL EXPORTING NATIONS; ON THE CONTRARY, WE SUPPORT SUCH EFFORTS. HOWEVER, THE BASIC PURPOSE OF THE WORLD BANK TODAY IS TO ASSIST DEVELOPING COUNTRIES IN NEED OF FINANCIAL SUPPORT. IT IS FOR THIS REASON THAT THE UNITED STATES GOVERNMENT, ALONG WITH OTHER MEMBERS OF THE BANK, GUARANTEES THE

OBLIGATIONS OF THE BANK AND ENABLES IT TO RAISE MONEY ECONOMICALLY IN THE WORLD'S CAPITAL MARKETS.

8. WE RECOGNIZE THAT SOME OIL EXPORTING COUNTRIES MAY WISH TO HAVE THE BENEFIT OF CONTINUED TECHNICAL AND MANAGEMENT ASSISTANCE FROM THE BANK IN THEIR DEVELOPMENT PROGRAM AND PROJECTS EVEN THOUGH THEY HAVE NO PRESSING NEED FOR BANK FINANCIAL SUPPORT. LIMITED ASSISTANCE TO MEET THIS DESIRE COULD APPROPRIATELY BE MADE AVAILABLE THROUGH A NUMBER OF ALTERNATIVE PROCEDURES, PROVIDED THE BANK'S ABILITY TO SUPPORT OTHER COUNTRIES WITH FINANCIAL REQUIREMENTS IS NOT RESTRICTED WHETHER THROUGH THE

ENCUMBRANCE OF BANK CAPITAL OR THE DIVERSION OF SCARCE BANK MANAGEMENT AND TECHNICAL SERVICES, AND PROVIDED THAT THE FULL COSTS OF SUCH ASSISTANCE ARE CHARGED.

9. IN LIGHT OF THESE CONSIDERATIONS, OFFSET LOANS FROM OIL EXPORTING NATIONS, OF THE TYPE THAT HAVE BEEN APPARENTLY ARRANGED IN CONNECTION WITH FIVE LOANS WE ARE DISCUSSING TODAY, DO NOT APPEAR TO US TO PROVIDE AN ADEQUATE RESOLUTION OF THE PROBLEM. MOREOVER, WE DO NOT BELIEVE IT DESIRABLE FOR THE BANK, IN EFFECT TO PROVIDE SPECIAL INCENTIVES TO INVEST IN ITS SECURITIES TO ONE CLASS OF LENDER.

10. WE WOULD WELCOME INCREASED PARTICIPATION IN THE ESTABLISHED DEVELOPMENT BANKS BY THE MAJOR SURPLUS COUNTRIES THROUGH THE PURCHASE OF ADDITIONAL SHARES IN THEIR ORDINARY CAPITAL PROVIDED SUCH SHARE PURCHASES ARE ACCOMPANIED BY COMMENSURATE INCREASED CONTRIBUTIONS TO THE CONCESSIONAL FUNDING MECHANISMS. THE GREATEST AND MOST URGENT NEED OF THE POORER DEVELOPING COUNTRIES IS FOR UNCLASSIFIED

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INCREASED ASSISTANCE ON THE LOW INTEREST, LONG-TERM BASIS PROVIDED BY THESE INSTITUTIONS FROM THEIR SPECIAL FUNDS.

11. WE BELIEVE IT WOULD BE APPROPRIATE FOR THE OIL EXPORTING COUNTRIES WITH SUBSTANTIAL SURPLUSES AVAILABLE FOR INTERNATIONAL INVESTMENT TO PROVIDE ADDITIONAL CONCESSIONAL ASSISTANCE TO THE POORER DEVELOPING

COUNTRIES THROUGH CONTRIBUTIONS TO THE DEVELOPMENT BANKS' SOFT LOAN FUNDS SUCH AS THE INTERNATIONAL DEVELOPMENT ASSOCIATION. IT WOULD ALSO BE APPROPRIATE FOR THE MAJOR OIL EXPORTING COUNTRIES TO REPAY PROMPTLY THEIR OUTSTANDING LOANS FROM THE DEVELOPMENT BANKS SO THAT THESE RESOURCES COULD BE USED FOR ADDITIONAL LOANS TO THE POORER DEVELOPING COUNTRIES.

12. WE WELCOME THE DECISION BY BANK MANAGEMENT TO HAVE A FULL REVIEW OF THE POLICIES AND PRACTICES OF THE BANK WITH RESPECT TO ITS RELATIONS WITH OIL EXPORTING NATIONS AS PART OF THE BOARD REVIEW OF FINANCIAL POLICIES ON JANUARY 21. WE RECOGNIZE THAT THE LOANS WHICH WILL BE BEFORE US FOR CONSIDERATION LATER TODAY HAVE BEEN CAREFULLY PREPARED AND NEGOTIATED BETWEEN THE BANK AND THE GOVERNMENT OF NIGERIA. SINCE OUR VIEWS ON THE GENERAL POLICY QUESTIONS INVOLVED, ALTHOUGH PREVIOUSLY EXPRESSED INFORMALLY, HAVE NOT BEEN PREVIOUSLY PRESENTED TO THIS BOARD IN A FORMAL POLICY STATEMENT, WE WOULD NOT WISH TO INTERFERE WITH THE DECISIONS THAT ARE MADE TODAY BY THE BANK AND OTHER MEMBERS OF THE BOARD. IN VIEW OF THESE

CONSIDERATIONS, AND PENDING THE OUTCOME OF BROADER DISCUSSIONS ON THE GENERAL POLICY GUIDELINES INVOLVED, WE WISH TO REQUEST AT THIS TIME TO BE RECORDED AS ABSTAINING ON THE LOANS WHEN THEY ARE PRESENTED. END TEXT. KISSINGER

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